U.S. Department of State
FY 2000 Country Commercial Guide: Moldova

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Chapter I: Executive Summary

This Country Commercial Guide (CCG) presents a look at Moldova's commercial environment, using economic, political and market analysis. The U.S. Embassy in Moldova has provided this relatively brief Country Commercial Guide due to its limited resources.

The CCGs were established by recommendation of the Trade Promotion Coordinating Committee (TPCC), a multi-agency task force, to consolidate various reporting documents prepared for the u.s. business community. Country Commercial Guides are prepared annually at U.S. Embassies through the combined efforts of several U.S. government agencies.

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Chapter II: Economic Trends and Outlook

A. Major Trends and Outlook

1. General

Since independence, and notwithstanding the difficulties imposed by its small economy, a war in Transnistria and the collapse of the soviet trading system, Moldova has followed a strong reformist strategy. However, in the 1990s Moldova has experienced perhaps the sharpest GDP contraction in the Commonwealth Of Independent States (CIS), with the result that its economy by the end of 1998 was around one third of its 1989 size. This collapse can be attributed to various economic misfortunes: the GDP decline of 29 percent in 1992 reflected the war with Transnistria, and the decline of 30.9 percent in 1994 reflected a severe drought which all but wiped out the important grape crop.

In addition, the 8.6 percent decline experienced in 1998, a year in which the government expected a 5 percent growth, was a consequence mainly of the crisis in Russia, which normally receives some 55 percent of Moldova's exports. Continuing economic problems in neighboring Ukraine and Romania, which together usually receive another 12-15 percent of exports, further undermined the performance of Moldova's export sector. Meanwhile, strong speculation against the national currency, the Moldovan Leu (ML), led to a more than 100 percent depreciation by mid 1999. An attempt to maintain the leu's value significantly reduced Moldova's hard currency reserves over 1998 - from $347.6 million before the Russian financial crisis in august 1998 to under $147.6 million by the end of 1998. Despite the difficult environment, the Moldovan government attempted to stabilize the situation but was unable to do so without sustained IMF support.

There are some positive signs for 1999, even though growth is not expected to resume. Under a number of conditions like further economic reforms and privatization, Moldova received assistance from the IMF and World Bank in early 1999, which helped stabilize the currency and the domestic economy.

2. GDP Growth

Following the 1.6 percent growth in GDP recorded over 1997, Moldova expected a growth of 5 percent over 1998, with exports to Russia and other key markets providing the engine for this growth. Disappointingly, by the end of 1998 Moldova's economy had contracted by 8.6 percent. The main cause was the economic crisis in Russia and Ukraine, as well as the worsening economic situation in neighboring Romania. Together, these three countries usually receive 70.4 percent of Moldova's exports. This GDP decline reflected the poor performance in the agriculture sector (including the key wine sector) and a major contraction in industry, where output fell by 11 percent over 1998. On the supply side, industry and agriculture continued to be troubled by a shortage of inputs.

3. Inflation

The impact of the Russian crisis on the country's trade relations with Moldova led to intense pressure on the Moldovan currency over the last quarter of 1998 and the first two quarters of 1999. The previous rate of ML 4.7 to one us dollar had dropped to ML 10 in 1998 and to ML 11.45 in June 1999. This meant an effective doubling in the price of many imports, including dollar - denominated imports like oil. By the end of 1998, the average annual consumer price index (CPI) had reached 10 percent, with a 1998 cumulative inflation of 18.3 percent.

The government and the national bank of Moldova forecast the inflation rate as 13-15 percent in 1999. However, this scenario is optimistic, since the cumulative CPI for the first five months of 1999 is already 10 percent.

4. 1999 Budget

In December 1998, the government approved the budget for 1999, which envisaged revenues of ML 2.9 billion ($333 million), equivalent to 29.3 percent of GDP, and expenses of ML 3.1 billion. Due to the ongoing regional crisis, the IMF gave its consent for Moldova to raise its deficit "ceiling" from 2 percent to 3.5 percent of GDP. This deficit takes into account expected revenues from privatization, as well as IMF and other international financial institution funding that was expected in 1999. The government introduced a 5 percent tax on all imports, excluding energy supplies, and will apply these revenues toward the budget.

5. Credit Ratings

Western institutions believe that Moldova's reforms are an indicator of the country's further growth and as a result, the major ratings agencies did not decrease the country's rating after the crisis of fall 1998. Moody's agency gave Moldova a B2 rating in 1998, although the rating for long-term bank deposits has been decreased to Caa1.

B. Government Role In The Economy
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1. General Goals

The government's vision is to move Moldova from its current poverty level by gradually transforming the country in the next century into an open market economy integrated into Europe, while maintaining its traditional markets in the NIS. The authorities have prepared a strategy called the "Strategic Orientations For The Socio-Economic Development Of The Republic Of Moldova Through The Year 2005," which sets out longer-term development objectives, and have adopted a work program of short- and medium-term policies to reach these objectives.

Moldova's development objectives are the following:

-- to stabilize the core institutions of the state which guarantee a democratic development of society, the rule of law and constitutional rights, and the freedoms and obligations of citizens;
-- to create adequate conditions for development of the market economy in order to ensure employment and revenue growth, and to be competitive on world markets;
-- to deepen agriculture and energy reform;
-- to create an environment which encourages private investment;
-- to bring Moldovan society in line with European standards and the norms of social equity and security;
-- and to prevent production and living standards from falling to a level which could generate social conflict and national strife.

2. Budget Priorities

Creating the engine for sustainable growth is an imperative for Moldova and the key to longer term macroeconomic stability. The government's budget program features measures to accelerate privatization under the 1999-2000 privatization program. The government is pursuing demand-side adjustment in order to promote price stability and stop the increase of payment arrears. The 1999 budget targets fiscal tightening on the order of 6.5 percent of GDP, principally through a freeze in nominal expenditures and major cuts in defense spending, together with reductions in capital spending and in expenditure commitments in education and health. Fiscal adjustment will cause real pain as the public sector must be downsized and reorganized to free up the resources needed to pay public wages, pensions, social assistance and energy bills.

Arrears to the energy sector continue to increase, due in large part to non-payment by fiscally strapped institutions, especially at the local government level. The government has tried to ensure sufficient funding in the 1999 budget, but further arrears could result if budgetary revenues fall short. The authorities realize that any future debt restructuring package would have to be based on a credible, time-limited plan to reverse the buildup of external energy arrears.

The goal of reducing the budgetary arrears beginning in 1999 is likely to be realized only if public sector restructuring accelerates and the external environment improves.

The government is emphasizing debt management, aid coordination and foreign direct investment in order to mobilize its resources. It is also intensifying efforts to promote export growth and diversification by strengthening the trade regime, completing the process of WTO accession, negotiating a new free trade agreement with the European union, and maintaining strong incentives under the new, more flexible exchange rate policy.

3. Private Sector Development

The government's program stresses the need to promote private sector production of competitive goods and services. The Moldovan authorities understand that foreign investment is essential for efficiency and competitiveness.

The government is working with the donor community to develop a viable micro-credit system based on a participatory approach.

The authorities are working to create a positive environment for private investment. This involves legal and institutional reforms to level the playing field, promote competition, protect property rights, strengthen the court system and ensure transparent regulation. A modern infrastructure and active markets for urban land and real estate are important to attract private investment.

4. Public Sector Reform

Corruption: The importance of a strong anti-corruption strategy has been the subject of recent discussions in Moldova. As in many NIS countries struggling to introduce market forces and establish the rule of law, corruption takes many forms in Moldova. These include smuggling, tax evasion, abuse of office by poorly paid civil servants, and informal fee-for -service schemes in the social sectors. The government has launched numerous initiatives to combat corruption. While in the past these efforts have dealt mainly with the symptoms of corruption, there is clearly now an appreciation of the need for a more systemic approach involving institutional reforms, civil service reform, legal and judicial reform, and programs to strengthen public oversight and civil society. At the present moment the government faces the difficult problem of creating an efficient and corruption-resistant public administration within tight budget constraints.

Planned reforms: Moldova plans to reform the public pension system, which links contributions directly to benefits and gradually raises the retirement age. A legal framework for private pension funds is also being developed. In education, the government intends to complement the introduction of a modern, unified curriculum with a program to reform the structure and management of public education. The authorities are initiating a restructuring of the public health care system, which will involve consolidating existing facilities, introducing an official fee-for-service scheme, and partially privatizing health services. Last, the Moldovan government acknowledges that the social assistance system is in need of fundamental reform. Legislation to underpin this reform is being prepared.

Long-term goals: in the long term, Moldova plans to modernize the state and restore public confidence in state institutions. Decentralization of authority to a reorganized and strengthened system of local government is indispensable for social sector reform, since local authorities deliver most social services.

C. Privatization
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1. General

Other priorities for Moldova in 1999 include restructuring and privatization of the state industrial and agricultural property. Moldova's privatization program dates back to 1991, when it adopted a property law, a privatization law and a law of agrarian reform. In 1992, it adopted an action plan for the stabilization and recovery of the economy as well as privatization, leading to an IMF-supported stabilization program in September 1993.

An effective mass privatization program was launched in 1994 by the ministry of privatization and the state property administration, and was completed in November 1996. Over 90 percent of the eligible population participated, using government-issued bonds. Some 1,142 large and medium-size, and 1,093 small enterprises were transferred to the private sector. Cash privatizations have had less success: the completed international tenders of the Moldovan telecommunications company Moldtelecom in 1998, and the tobacco concern Tutun in 1996, were canceled at the last minute. Over 1997-98, 223 enterprises were sold at open and Dutch auctions, generating revenues of ML 51.2 million ($4.45 million).

The government's program also aims to restore financial viability to the energy sector and ensure a reliable and competitive energy supply to all paying customers. The government is planning to privatize electricity distribution and generation companies within a year and it has initiated work on a plan to restructure district heating companies, including through bankruptcy proceedings if necessary.

Results: privatization revenues have been relatively low due to unrealistic price expectations and the unwillingness of the government to lose management control. In addition, since august 1998, the Russian crisis has had a strong impact on Moldova. However, the government has recently showed flexibility in establishing prices on the condition that serious investment commitments are to be made in the acquired company, and all its debts are to be assumed. As a result, 15 companies have been sold to foreign and local strategic investors, generating revenues of ML 50 million ($4.37 million) and direct investment of ML 87 million ($7.6 million), dm 82 million, and $57.5 million. Leading western companies were involved in six out of the 15 successful privatization programs.

The size of the private sector has grown considerably over the past few years. As of early 1999, an estimated 60 percent of the economy was in the private sector. Industries are more than 60 percent private, with agriculture at 86 percent, retail sale and services 70 percent, and construction and transport almost 44 percent.

2. Land Privatization

Given the importance of the agricultural sector for Moldova, land privatization is a key issue for the government, but progress has been slow. The authorities are privatizing land through an equitable and transparent system of direct cash grants to private farmers. More than one million private farmers will receive legally recognized land titles and property shares. The legal basis for land trade has been established and taxes on land transactions have been lowered.

Results: By early 1998, only 10 percent of the country's total land (13 percent of total agricultural land) had been privatized. As of mid-1999, this process has been completed for almost 100 large agricultural farms. Excluding land held by individuals that continues to be part of collective farms, private farming is estimated to cover only 3.7 percent of agricultural land.

In 1998-1999, the privatization program was extended to cover 890 collective farms, out of approximately 1000 in the country. Land has been tradable on a restricted basis since late 1997 and can now be used as collateral, although in reality problems in determining land value have limited its use in commercial transactions. For this reason, evolution of a functioning land market has been slow, which has in turn held back much-needed reforms in the agricultural sector. Reversing this trend remains one of the government's most pressing priorities.

There are still some restrictions on transactions for agricultural land; for instance, foreigners are not allowed to purchase it.

D. Balance Of Payments Situation

1. Trade Balance

In 1998, the collapse in the value of the currency impacted strongly on Moldova's external trade. The 1998 trade deficit increased to $389.1 million from $297.3 million in 1997, reflecting lower exports to key markets and higher import costs due to currency devaluation. The balance of payments deficit for 1998 reached $165.6 million, caused both by the higher trade deficit and lower that expected inflows of investment. The government deficit for 1998 was ML 305.3 million, representing 3.5 percent of GDP.

2. External debt

One of the country's biggest challenges will be tackling its increasing external debt, which by the end of 1998 had reached over $1.2 billion. Moldova had been due to repay an estimated $215 million over 1998, but was unable to do so. During 1999, a further $235 million, equivalent to more than 80 percent of Moldova's GDP, becomes payable. The country has made some dramatic efforts to stabilize the situation, including handing 50 percent ownership of its gas lines to Russia's Gazprom, one of its biggest creditors. Moldova also redeemed bonds worth $140 million in order to pay off part of its Gazprom debt. However, Moldova continues to owe that organization approximately $320 million, not including the $400 million that is owed by Transnistria.

E. Principal Growth Sectors

1. Agriculture

Agriculture represents the basis of the Moldovan economy, comprising up to 40 percent of GDP and providing employment for about 42 percent of the population. Agricultural production accounts for 75 percent of the country's total exports. This specialization in agricultural production is due to its favorable climatic conditions and higher than average soil fertility. 75 percent of the total territory is agricultural land and over a half of the population lives in rural areas. Various products such as cereals, sunflowers, sugar beets, potatoes, vegetables, tobacco, fruits and grapes grow in Moldova. In 1998, plantings of lower-cost crops like wheat, corn and sunflower increased and amount to 2.485 thousand tons of wheat and corn and 199 thousand tons of sunflowers. On the other hand, plantings of capital-intensive crops like tobacco and vegetables have declined and amount to 24 and 501 thousand tons respectively. The number of livestock considerably decreased as a result of both high prices and the general economic crisis, which led to considerable profit losses.

Moldova benefits from Chernozem, a fertile black earth that covers 75 percent of its soil area. However, the sector has been adversely affected in recent years by droughts, frosts, and floods. Adverse weather conditions have been compounded by a shortage of inputs and raw materials. This led to more intensive farming techniques, in turn lowering the productivity of soil by some 35 percent. Thus, the sector continues to receive substantial government subsidies and tax incentives.

The total farmed area in Moldova is 2.6 million hectares: 21 percent is farmed by individuals, 61 percent by cooperative farms, and 18 percent by the state. Over the next few years, the amount in the first two categories is to increase as a result of the national farm restructuring program. Some 273 thousand farmers currently operate throughout the country.

2. Manufacturing

According to statistics from the economics and reforms ministry, Moldova's industrial production decreased by 11 percent in 1998 compared to 1997. More than 60 percent of enterprises reduced their production in 1998. The most significant decline was recorded in the furniture, meat, wine, bakery, cannery, and sugar production industries. Moldovan industrial development was directly affected by the financial crisis in the CIS countries and in particular, in Russia. The low incomes of the Moldovan population and introduction of the value-added tax on imported raw materials also affected domestic industries. Currently, the ministry is working on developing measures to support the sectors, speed up the reorganization process, and stimulate the financial growth of enterprises.

The following is a breakdown of the manufacturing sectors in Moldova in 1998: food processing - 57 percent, energy generation and distribution - 18 percent, light industry - 5.4 percent, engineering and metal processing - 5 percent, construction materials production - 4 percent, and forestry, wood processing, pulp and paper production - 3 percent.

Food Processing: Moldova used to be one of the main suppliers of fresh and processed fruits and vegetables to the Soviet Union. Since Moldova's transition to a market economy, this sector, like almost all of the Moldovan economy, met with difficulties. However, the apple juice production sector is expanding despite the fact that many factories have outdated equipment. A number of companies have made substantial profits almost exclusively in apple juice processing. In 1998, Moldova produced 84.5 thousand tons of juices.

Wine: Wine represents a major product of Moldova's economy, with exports in a good year accounting for up to 50 percent of the total export income. The wine industry has also been a major area of foreign investment. However, it still needs substantial amounts of money to recover from the anti-alcohol campaigns conducted between 1985 and 1991 and from the general under-investment that has characterized the industry since then. There are 150 wineries producing 3-4 million hectoliters a year from 170 thousand hectares of vineyards, an area broadly the same size as Bordeaux in France, but capable of producing a full range of red, white, and sparkling wines. After a good year in 1996, unseasonable weather substantially decreased the grape harvest in 1997: only 180 thousand tons of grapes were harvested, which is around half the 1996 grape harvest. The 1998 harvest was 339 thousand tons. In 1998, Russia accounted for 85.6 percent of wine export sales. Moldova's wine growers continue to view this as their most important market, despite the current crisis. However, Moldova exports wine into many western and Asian markets such as the united states, Canada, western European countries and china. In 1998, wine exports amounted to 13.9 million decaliters, worth $190 million.

Sugar Beets: Sugar beets are another important crop. The country has the production capacity, although with outdated technology, to process over 3 million tons of beets annually. There are 10 privatized sugar beet enterprises in the north of the country, grouped together in the association of sugar refineries. About 1.8 million tons of beets are processed into 230 thousand tons of white sugar each year.

Milk: In 1998, milk production in the country increased by 25 percent, totaling 131.5 million lei ($15 million). In particular, production of raw milk increased by 42 percent and production of milk powder, butter, and cheese doubled compared with 1997. Eighteen new diary items were marketed during 1998. Out of 10 dairies in Moldova, Incomlac, located in Balti, and Alba, located in Hincesti, are the biggest. Starting in 1997, Alba strengthened its position with a significant American investment.

Light Industry: Much of the light industry is equipped with modern machines and some plants have formed joint ventures with foreign companies, mostly from Western Europe. More investment is needed to widen the raw materials base and to find new foreign markets. The industry produces cotton cloth, industrial carpets, natural and artificial silk and natural and artificial leather goods. Textile and knitwear companies are among 39 listed by the government as prime companies likely to attract western investors.

Tobacco Industry: The tobacco industry remains one of the most important in Moldova. During soviet times, the republic produced 40 percent of the USSR's annual crop - at its height, 135 thousand tons, equivalent to 10 billion cigarettes a year. The industry consists of eight dehydration plants and the Chisinau tobacco factory, which can produce 9.1 billion cigarettes a year. In 1998, cigarette production was 7.5 billion, 2 billion less than in 1997. In 1998, Moldova announced plans to privatize Tutun, the country's largest tobacco concern, by breaking it up into 10 joint stock companies, with 20 percent of the shares to be distributed to employees and the remainder transferred to the state, and 80 percent being sold to investors. An Austrian company has been appointed to help oversee the privatization process, which is expected to start in late 1999 with the sale of the tobacco dehydration companies.

Construction Materials: The government has been moving ahead with privatization in this sector, which contributed around 5 percent of the gross national output in 1998. In 1998, the sector comprised about 50 companies that are working on local raw materials. Annual production capacities in Moldova are the following:

> Cement - 2.5 million tons; concrete blocks and items - 2.2 million cubic meters; asbestos - cement pipes and coupling parts - 3 thousand kilometers; gypsum - 110 thousand tons; bricks - 254 million pieces; stone blocks for construction - 460 million pieces; linoleum - 4 million square meters. This branch of industry is expanding in two directions: through increased export of construction materials (cement, gypsum, ceramics) and through investment in civil engineering.

Metal Processing: The metal processing sector is represented by the only Moldovan metallurgic plant located in Ribnitsa, a city in the Transnistria region. It annually produces 700,000 tons of metal items on the 39 production lines. About 95 percent of its production is exported and only 5 percent is used domestically.

3. Services

Insurance Services: Insurance services are becoming more and more important in Moldova's market economy, although statistics show that less than 1 percent of net revenues are spent for insurance in Moldova. At present, there are 40 companies which provide the service, of which 16 are joint stock companies, 6 are joint ventures, and 24 are limited liability companies. In 1998, the sector dynamically increased activity by 40 percent and by the end of 1998 insurance reserves amounted to ML 140 million. There are 2800 persons working in the sector. There is a demand for life, accident and health insurance services, non-life insurance services, and reinsurance and retrocession services.

Legal Services: As Moldova passes new laws and regulations, Moldovans are in increasing need of legal advice, and in many cases are unable to find expert assistance in these areas. As a result, legal services are unquestionably a growth industry in Moldova. A license issued by the ministry of justice is required to provide legal services. A licensed lawyer can provide all legal services, except representation in criminal proceedings, which is permitted only to sworn solicitors. There are two u.s. law firms active in Moldova: KPMG Legal And Taxation Services, which provides legal and taxation consulting, and The Law Office of Romney Wright, P.C., which provides assistance with visa document preparation. The American bar association is also active in Moldova as the U.S. Agency For International Development (USAID) contractor for Moldova's legal reform project.

Communications Services: Due to Moldova's poor telecommunications infrastructure, more and more private companies are investing in these areas: mobile telephone services in the GSM-900 standard; business network services; packet-switched data transmission services; telegraph and telex services; facsimile services; private leased circuit services; electronic mail; voice mail; and code and protocol conversion.

F. Infrastructure
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1. Telecommunications

Moldova has an under-developed telephone system with only 15 percent of households connected to the national network. There is an acute shortage of pay phones, and many rural areas are without service. Direct telecommunication lines link Moldova to all CIS countries, Romania, Bulgaria and Greece. Lines to the rest of the world are supported via satellites through two transit telephone exchange units located in Montreal, Canada and Copenhagen, Denmark.

Moldtelecom, the national telecommunications company, is currently upgrading its system. It has signed agreements with a number of western companies including Denmark's Great Northern Telegraph (GNT), which is investing $10 million of the $17 million cost of installing an international digital switch system and installing fiber-optic technology between Cahul and Briceni. GNT will recoup its investment during the operation of the system over a period of 13 years. The Cahul-Briceni link, which runs through 23 districts and took more than two years to build, connects Moldova's telecommunications system to those of neighboring countries. Moldtelecom plans to upgrade new lines including those from Balti to Ungheni and Nisporeni, but continues to face a shortage of capital. The government intends to sell a controlling interest of 51 percent of Moldtelecom, subject to a condition that a potential investor expands the telephone network by 10 percent over the next five years.

One of Moldova's largest investments was made in telecommunications. On October 1, 1998, Voxtel, a consortium comprising one French, one Romanian and two Moldovan companies, began to provide mobile telecommunication service in the GSM-900 standard. The company plans to invest $65 million in its network up to the year 2007, of which $25 million will be provided by the shareholders, $10 million by the International Financial Corporation (IFC) of the World Bank, and the remaining $30 million by a consortium of western banks. By that time, Voxtel expects to have 150 thousand clients.

2. Transportation

Roads: Moldova depends on its road transport network to ensure both internal movement of products and the export of agricultural goods. Many roads are being upgraded, including 238 kilometers of main highway, under a $28.6 million loan from the ABOARD. Automobile, bus and truck transport accounts for most of the local transportation, which is 96 percent of cargo movement, and more than 85 percent of passenger travel.

Trains: The Moldovan railway accounts for 95 percent of external cargo and extends to 1,318 kilometers.

Air: Air transportation is provided by three main airlines: Air Moldova International and Moldavian Airlines, commercial air carriers, and Air Moldova, a state company. Airlines flying to Moldova include Tarom (Romania), Transaero (Russia), and Tyrolean Airlines (Austria). There are connections with 25 foreign cities and with more than 25 foreign airlines. Chisinau Airport was built in 1974 and currently receives 16-18 planes a day. In 1998, a Turkish company won an international tender announced for airport reconstruction, funded by an EBRD loan and the Moldovan government, worth $12 million. Reconstruction work is expected to be complete in early 2000, after which the airport capacity is expected to be 400 persons per hour. By 2010, the airport will be able to handle 605 thousand passengers yearly, versus only 160 thousand passengers in 1998.

Water: River transport is used for merchant shipping on the Nistru river, as well as for the transportation of tourists and local cargo.

In early 1995, the Moldovan government established Terminal S.A., a joint Moldovan-Greek venture to build and maintain an oil terminal in Giurgiulesti on the Danube River in Moldova. The company signed a concession treaty with the Moldovan government, which was later approved by the parliament. In December 1995, the EBRD, the government of Moldova, Terminal S.A., and the Technovax Company signed a multilateral memorandum, in which the parties stated their willingness to construct and maintain the terminal. The EBRD's role was then confined to financing and supervision. Tirex-petrol, a major Moldovan supplier and wholesaler of oil, owns 41 percent of the terminal's shares. (Note: Tirex-petrol is now controlled by the Moldovan government, which holds an 83 percent stake in the company.) Technovax, a company formed by two Greek construction companies solely for the Giurgiulesti project, holds 39 percent of the terminal's shares. The EBRD holds a 20 percent share in the terminal company. The concession treaty will run until 2022, after which the terminal will be given to the state unless the parties agree to proceed in a different manner. The Giurgiulesti facility will increase Moldova's ability to import oil products and thus reduce their cost.

G. The Y2K Problem: Moldova's Efforts

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1. Level Of Public Awareness

Most top Moldovan officials are familiar with the Y2K problem. In October 1998, the Moldovan government issued a special decree on the solution of the Y2K problem. A special inter-departmental committee for the problem in Moldova was created by this decree. This committee will present their national Y2K action plan to the government for approval in mid-July 1999. Once the plan is ready, the committee will seek a second grant of $500 thousand from the bank for implementation.

Moldova is a developing country with very few significant computer based systems and the Y2K problem is not a concern of a large part of the society. The country is in a severe economic crisis and the citizens are accustomed to poor communications and transportation and shortage of utilities.

2. Moldova's Preparedness

The shortage of financial resources is the primary obstacle for Y2K preparedness in Moldova. The national committee considers the energy, rail, pension and health sectors as critical, primarily because there is limited funding to solve the Y2K problem. The telecommunications sector is critical but will not have to rely on the government for funding. The financial sector is also highly vulnerable; however, the National Bank of Moldova was one of the first in the country to be aware of the Y2K problem. It may be the only organization in Moldova that can allocate enough resources for the Y2K problem solution.

Chapter III: Political Environment

A. Political Overview

Moldova gained its independence from the Soviet Union in 1991. In 1994 it adopted a constitution which provides for a multi-party representative government with power divided among a president, cabinet, parliament, and judiciary. President Petru Lucinschi began his four-year term in January 1997. In the March 1998 parliamentary elections, four center and center-right parties won sixty-one seats and formed a coalition government. Prime minister Ion Ciubuc retained his office. The Communist Party won the remaining forty seats and is in the opposition. A new parliament was elected for a 4-year period in elections held on march 22, 1998. International observers considered the elections to be free and fair, although Transnistrian authorities blocked busses carrying citizens who were heading for the right bank of Moldova to cast their ballots. In March 1999, the Moldovan parliament voted in a new prime minister, Ion Sturza, after the resignation of Ciubuc.

B. Separatist Regions
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1. Transnistria

Moldova remains divided, with a separatist Transnistrian region along the Ukrainian border controlled primarily by ethnic Slavs. The Organization For Security And Cooperation In Europe (OSCE), the Russian Federation, and Ukraine act as mediators to resolve the conflict. The two sides have generally observed the cease-fire of July 1992, which ended armed conflict between them, but progress toward a comprehensive settlement has been slow at best.

The separatist regime of Transnistria heavily affects the business climate in the region. Business entities located in the region are not registered with the Moldovan registration chamber and are not controlled by Moldovan fiscal authorities. The region is heavily used for various fiscal evasions while importing and exporting goods to the NIS region. Post assistance for American business located in that region is also limited. Post is unable to advocate for U.S. businesses with the Transnistrian authorities and is unable to provide regular consular protective services (in case of arrests, for example).

2. Gagauzia

A Christian Turkish minority, the Gagauz, enjoy local autonomy in the southern part of the country.

Chapter IV: Marketing U.S. Products and Services

This information will be provided in next year’s CCG.

Chapter V: Leading Sectors for U.S. Exports and Investment

A. General

U.s. exports to Moldova grew by a modest 4.5 percent in 1998 and reached $21 million, compared with $20 million in 1997. The leading U.S. exports were meat products, vehicles, and machinery. U.S. imports from Moldova doubled in 1998 and reached $112 million, compared with $51 million in 1997. Leading U.S. imports were iron and steel products, woven apparel, and preserved food.

In 1998, the government of Moldova established the national agency for attracting investment. The agency has determined these priority areas for foreign investment: tourism (health spas, hunting, picturesque and historical places, and wine tourism); transport (transportation of goods, tourism, and warehousing); agriculture (food processing, wine, tobacco, vegetable, corn and soya oil, milk and meat production); construction materials; and light industry. Moldova is particularly keen on attracting hi-tech investment.

The state established and owns the bank for development and investment, which was established in late 1997 to help attract foreign investment and support small and medium enterprises.

B. Significant Investment Opportunities
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1. Moldtelecom

The privatization of Moldtelecom, the state-owned national telecommunications company, represents a major investment opportunity for American companies in Moldova. In December 1998, the Moldovan parliament approved a plan for reorganization and privatization of Moldtelecom, whose statutory capital amounts to ML 980 million ($85.6 million). Under the document, Moldtelecom will be reorganized into a joint-stock company and privatized through an international tender.

The reorganization and privatization of Moldtelecom will be carried out in three stages. During the first stage the Moldovan cabinet will select a consulting company to prepare Moldtelecom for sale. During the second stage, 51 percent of the company's shares will be sold to a strategic investor. The final stage will include implementation of the investment plan for the next five years, including an increase of the telecommunications network by up to 25 percent and network modernization. The investor will be granted an exclusive right to render local and international telephone services for five years after the privatization. The investor will also have an advantage in the licensing process for providing cellular services.

2. Other Privatizations

In 1999, the government plans to sell 51 percent of stock in the country's eight electricity companies, of which 5 are regional power distribution enterprises and 3 are main power generating plants. It also plants to privatize tobacco and wine industry enterprises. In addition, in 1999 Moldova will privatize Moldcarton, a cardboard and packaging producer for Moldova's agroindustrial sector; two furniture factories; the footwear factory Zorile; the construction materials producer Karyer Ozyornoye; the agricultural company Moldagrotechnica; and the chemical plant Biochemichesky. A potential investor will be offered a controlling interest in these enterprises.

Privatization of agricultural land continues; however, foreigners are not permitted to purchase this type of land.

3. Transportation

The transportation sector represents a number of opportunities for American investors such as repair services, remanufactured parts, and supply of new and used automobiles (in particular, buses and minivans). At present, Moldova has a total of 1800 buses for transportation of population and at least 30 percent of them need to be replaced.

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Chapter VI: Trade Regulations, Customs, And Standards

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A. General

The most important trade regulations are listed in these laws:

-- "On The Regulation Of Import And Export Of Goods And Services" n. 188-xii (07/26/90);
-- "On The Bases Of Foreign Economic Activities In the Republic Of Moldova" n. 849-xii (01/03/92);
--"On The Customs Tariff" n. 1380-xiii (11/20/97);
-- "On The Regulation Of Repatriation Of Money Resources, Goods, Works And Services Proceeding From Foreign Economic Transactions" n. 1466-xiii (01/29/98); and
-- The 1999 budget law n. 216-xiv (12/12/98).

In addition, there are a number of government resolutions such as "On The Performance Of The Production Certification In The Republic Of Moldova" n.414 from 06/13/94, which establishes the list of imported goods requiring certificates of conformity; and "On The Improvement Of The Foreign Trade Regulating Mechanism" n. 777 from 09/13/97, which further liberalized the import and export of goods.

B. Customs Regulations, Taxes And Tariffs
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1. Customs Regulations

In 1998, the Customs Control Department made significant changes in the customs regulations to fight customs evasions. At present, an importer has to present 11 documents at any Moldovan border crossing point. The documents are: a supplier's price bid; an invoice; a sale/purchase contract; transportation documents (with seals of the exporting country and of transit countries); a commodity insurance contract and insurance policy; data on the importer's accounting; a hard-currency payment order from a bank; a statement of the hard-currency account that was used to pay for the goods; a document proving the goods' acceptance; a contract for the goods sale on the domestic market; and a document for receiving hard currency though an exchange at the hard-currency market.

Also in 1998, the Moldovan government enacted a strict resolution to control customs costs of some imported goods. This supplement to the customs regulations indicates the normative prices of a variety of imported goods. If the price of a commodity claimed by the importer is below the listed amounts, the importer will have to provide additional information to prove the price claimed.

The import of vodka, liqueurs and other alcohol drinks; grape, fruit and berry wines; sparkling wines; divines (cognacs); and tobacco products is allowed by customs and fiscal bodies if they were marked with control marks during their production process. These goods can be imported without these marks by individuals in the amounts established in the 1999 budget law. Control marks for imported goods are sold by the customs control department.

2. Customs Tariffs

The customs tariffs for imported goods are applied according to the 1999 budget law. Only part of the total imports are subject to customs tariffs. For all other items, a tax of .25 percent of the customs value of imported or exported goods is applied. Imported goods are also subject to a special tax of 5 percent of their customs cost, regardless of their place of origin.

Exemptions: customs tariffs are applied to all goods imported from all countries with the exception of the former USSR republics and Romania. Customs tariffs are also not levied on commodities produced and imported from member states of the European Community, countries which ratified the agreement concerning the creation of a free trade zone, or with which Moldova signed interstate bilateral agreements regarding free trade.

In addition, these categories are also exempt from customs taxes and customs procedure fees: materials needed for statutory activity, granted by the Council of Europe; goods and services imported on the basis of credits and grants offered by the Government Of The Republic Of Moldova; commodities granted with a state guarantee; and commodities on the basis of loans offered by international financial organizations for implementation of certain projects.

Equipment granted by the international Olympic committee for training the national Olympic team is exempt from customs fees, as well as goods imported for use by the American company

"Redeco Ltd.", according to a concession agreement signed between the company and the Moldovan government.

Customs taxes are not levied on coal fuel oil, well gas and other gaseous hydrocarbons, or electric energy.

C. Excise Taxes
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Excises were first introduced in 1992. At present, there are about 60 kinds of goods divided into 14 larger categories subject to excises. Excises are applied for goods consumed in Moldova, both produced locally and imported. Excises are also not applied for wines, raw material, and tobacco, if they are imported by economic agents which hold a license to perform these activities.

D. Value Added Tax (VAT)

In July 1998, a new VAT system was introduced in Moldova. According to the Moldovan fiscal code, goods and services imported in Moldova are subject to a value-added tax, which is 20 percent of the customs value of the goods.

Exceptions: goods for personal use or marketing purposes imported in limited amounts, and goods and services produced and exported by economic agents from Moldova are not subject to the VAT. Also exempt from the VAT are glass containers for the production of wine and canned goods; alcohol and cane sugar which has been imported for processing purposes; goods imported and marketed in the duty-free stores; or goods that transit through the customs territory of the country.

The following goods are also exempt from the value-added tax: natural and liquid gas imported to Moldova; equipment and electric appliances, imported by producers; trucks, tractors and combines, imported to implement new technologies but not for mass production; animals and birds; protein, vitamins, and mineral additives imported by their manufacturers; raw material, material and completion articles imported by firms from blind societies; cars to be sold on the domestic market; equipment and other goods imported by the American company Redeco Ltd; and equipment for the national Olympic team.

E. Special Import/Export Requirements
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1. Import Licensing

A license for import of weapons, explosive substances, nuclear materials, technologies, equipment and installations is issued by a special committee of the Moldovan government. The Ministry of Health must license the import of pharmaceutical products and related chemical substances. The Ministry of Agriculture and Food licenses the import of poisons, chemical and biological products for plants, and the instruments and apparatus for veterinary medicine. The Ministry Of Finance must license the import of precious metals (silver, gold) and products thereof; alloys; semi-finished products which contain precious metals (except electronic products which contain precious metals); petrol and diesel oil; as well as for the import of alcoholic beverages and tobacco products. The Ministry of Economy and Reforms must license the imports of textiles.

2. Export Certification

U.S. companies desiring to export to Moldova must be sure that Moldovan certification requirements are met before shipping goods. Under Moldovan law, a wide range of goods and services -- including all kinds of food and food byproducts, food-processing and packaging equipment and materials, alcoholic and other beverages, tobacco, wood products, and various types of clothing -- must be certified before they can be imported into Moldova. The Moldovan department of standards and technical supervision (Moldstandart) issues certificates of conformity to Moldovan standards using procedures recommended by the international certification organization.

<u>Goods with International Product Certification:</u>

If a product already has international product certification, the certification process in Moldova starts with submission of an official application form along with other documentation regarding the product's international certification. No later than one month from the time of the initial application, a foreign company applying for Moldovan product certification should receive a response on the validity of its product's international certification in Moldova.
The following documents should be submitted along with the application form: a notarized copy of the foreign certificate; legal documentation relating to the certification; if relevant, a copy of the record of a previous certification examination; and if relevant, a graphic illustration of the product's certification sticker. Documents required for certification should be prepared in Moldovan. English-language documents should have a notarized translation into Moldovan.

<u>Goods without International Product Certification:</u>

If goods arrive in Moldova without international certification, the importer must pay deposit fees to the Moldovan customs office, and the goods cannot enter the country. If goods do arrive without a certificate, the imported products must be held at a Moldovan customs warehouse, where they must remain until a certificate of conformity is presented to customs officials. Storage is expensive and requires additional documentation, such as a security certificate.

Moldstandart supervises several certification agencies that conduct certification analyses on a fee-for-service basis. Required application forms are provided by the entity that will ultimately issue the certificate. After the fee has been paid, the certification body provides the company with all forms necessary for the certification process.

Hygienic Certification:

In some cases products must undergo a hygienic examination before a certificate of conformity can be issued. A certificate of hygiene is obligatory for foodstuffs and related raw materials, various products for children, water-supply equipment and materials, and other products. A certificate of hygiene must be issued by the state sanitary inspectorate before the product is imported into Moldova. It can be granted either on the basis of an international certificate of hygiene already issued or on the result of local examination. The certificate will usually be issued 15 days from the date the relevant information is submitted. In the case of complicated laboratory examinations, issuance should occur after no more than a month.

GSP: the republic of Moldova benefits from the generalized system of preferences (GSP), granted by the member states of the European union, Japan, Canada, and the USA. The ministry of economy and reforms issues certificates of origin for the export of goods that benefit from the GSP.

F. Free Trade Zones

The Investment Climate Statement prepared by the Embassy discusses the free trade zones located in Moldova and their activity.

Chapter VII: Investment Climate

The Investment Climate Statement was submitted by the post in July 1999 and is available on the Internet.

Chapter VIII: Trade and Project Financing

A. Description of the Banking System

1. Banks

The domestic banking system was created in the early 1990s as a two-level system: The National Bank of Moldova (NBM) and the commercial banks. The NBM supervises the commercial banks and acts independently of the government. The 1995 laws on the NBM and other financial institutions govern Moldova's banking system. The laws, prepared with IMF assistance, correspond to international standards.

There are no restrictions regarding the foundation of foreign banks or their branches in Moldova. Eighteen commercial banks have an NBM license that allows them to perform international operations.

In line with IMF and World Bank recommendations, the Moldovan banking system adopted international accounting standards on January 1, 1998. At that time, the NBM also doubled the requirement for minimum total capital of commercial banks up to ML 8 million ($700 thousand). By the end of 1998, the total capital reached ML 16 million ($1.4 million).

The banking system has functioned well over the past few years, especially in light of the economic crisis of late 1998, when the effects of Russia's crisis were reflected in the devaluation of the national currency. The NBM was vigilant in checking for imbalances and violations of the country's banking laws. In response to the collapse in the value of the leu in late 1998, the government raised reserve requirements drastically, from 8 to 25 percent of total liabilities, before reducing them again to 15 percent, and required an additional 10 percent to be held in government-issued treasury bills. The banks were obliged to deposit 13 percent of their capital with the NBM and 2 percent in correspondent accounts.

There are currently 21 commercial banks in Moldova, of which the largest are Agroindbank, Petrol Bank, Banca De Economii, Moldindconbank, Banca Sociala, and Victoriabank. Victoriabank is the only Moldovan bank with full membership in visa and Europay. As a private commercial bank, Victoriabank has been the most proactive in supporting the small industry, retail, and food industry of Moldova.

2. Other Financial Institutions

Other elements of Moldova's financial sector are less developed, but include the National Commodity Exchange, established in 1991; the Moldova Interbank Currency Exchange; the Moldovan Stock Exchange, established in 1995; 15 investment funds; and eight trust companies. In addition, a state commission on securities markets with the powers of a ministry has been created to supervise the activity of market participants. In 1998, the state commission was renamed the National Commission On The Securities Market.

The first auction of 91-day treasury bills was held in 1995, while 730-day treasury bills were introduced in December 1997. In 1998, the government tightened regulations concerning investment funds, limiting the holding of a fund in a firm to 25 percent.

B. Sources of Project Financing

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1. The World Bank

Since Moldova joined the World Bank in August 1992, its lending has provided consistent support for Moldova's economic reforms. The Bank's assistance strategy for Moldova is in line with the Moldovan government's program and has three pillars: macroeconomic sustainability, private sector development, and public sector reform.

In February 1996, the Bank approved $35 million for the first private sector development project to support enterprises restructuring and financial sector reforms. In May 1996, two more loans were approved: $10 million for a project to help improve agricultural research programs; and a $10 million loan for an energy project to promote better economic and financial management. In April 1997, the Bank approved a $16.8 million loan for the general education project. In September 1997, two additional projects were approved: a $9 million credit for a private sector development project to strengthen the competitiveness of private enterprises, and a $100 million structural adjustment loan and credit (SAL-II) to support growth and macroeconomic stabilization. In January 1998, a $5 million credit was approved for the rural finance project, to assist in developing credit mechanisms for private farmers. This was followed in April 1998 by a $15.9 million credit for the Cadastre Project, to support the institutional framework for a land market.

2. European Bank for Reconstruction and Development (EBRD)

At the end of 1998, European bank for reconstruction and development (EBRD) commitments in Moldova totaled ECU 149 million ($146 million) in support of the private banking sector, infrastructure projects, agribusiness, and light industry. Of these, 16 percent were in the financial sector, 30 percent in the private corporate sector and agro-processing, and 54 percent in infrastructure.

The EBRD's strategy is to further promote the transition process in Moldova by focusing on the following objectives: promoting private sector investment, with a particular emphasis on the agro-processing sector; supporting the strengthening of the local financial sector; financing critical infrastructure investment; and pursuing an active implementation of the existing portfolio. The level of technical cooperation has increased, reaching ECU 7.1 million for 26 projects by the end of 1998. This is mainly related to project preparation or implementation.

<u>EBRD Activity in Moldova's Financial Sector:</u> In the financial sector, the EBRD has focused on the establishment of effective financial inter-mediation mechanisms to reach small and medium-

sized enterprises (SME's) and to respond to current investment requirements. SME credit lines for five Moldovan banks are fully operational and have significantly improved the bank's ability to support the growth of the private sector.

Micro-Enterprise Loans: In September 1996, the EBRD, in cooperation with the Swiss and American governments, established the Swiss-American micro-enterprise program to give Moldovan start-up enterprises easier access to bank finance, especially for very small loans. The program's objective is to extend $5 million to a number of Moldovan banks, which in turn will provide credits of up to $20 thousand in foreign and local currency to small Moldovan businesses, generally defined as those employing 20 people or less. Initially, micro-enterprise funds were made available to Victoria bank, Mobias bank, Moldagroindbank, and Universalbank commercial banks of Moldova. By the end of 1998, 520 Moldovan entrepreneurs benefited from loans under this facility.

Infrastructure Projects: In 1996, the EBRD signed a $19 million financing package for Terminal SA, a Moldovan joint venture between state oil company Tirex – Petrol and a Greek joint-venture company Technovax SA, for construction of an oil terminal on the Danube river in southern Moldova. The road upgrading project, signed in 1995, contributed to strengthening of the road sector financing. The EBRD is also assisting the Moldovan government in the privatization and modernization of the state-owned telecommunications company Moldtelecom through the provision of advisory services.

Three major projects in the public sector and infrastructure are part of the EBRD pipeline for Moldova. They include a project to modernize the Chisinau international airport and its air navigation system, an energy project to improve the city's heating system, and a water and waste water rehabilitation program.

3. The International Monetary Fund

Moldova joined the International Monetary Fund (IMF) on august 12, 1992. The IMF has a number of activities in Moldova, including credit arrangements with the national bank of Moldova and the Moldovan government; economic policy advice; technical assistance, provided via resident advisors or via technical assistance missions from IMF headquarters in Washington, dc; and training of civil servants at the IMF institute at IMF headquarters, or at the joint Vienna institute in Austria. At present, IMF support to Moldova is some $200 million. In 1999, the IMF will finance projects in transportation, water supply, energy, social investment fund, housing, adjustment of enterprises, health, and construction.

4. Western NIS Enterprise Fund

The Western NIS Enterprise Fund (WESTNIS), capitalized with $150 million by the u.s. government, invests in private companies in the NIS region. The Fund has been fully operational in Moldova since June 1995. The Fund generally provides equity capital and loans in amounts between $750 thousand and $7.5 million to small and medium-sized private enterprises. The Small Business Loan Fund, a separate fund managed by WESTNIS, makes commercial loans under $100 thousand to small businesses and entrepreneurs.

In early 1997, WESTNIS funded Roua Universe, a Moldovan company that started providing custom farm services to agricultural businesses, primarily in the central and southern part of Moldova. WESTNIS has 50 percent of the company's equity and purchased Massey Ferguson combines for harvesting peas, barley, wheat, soy, beans, sunflower, and corn, as well as bailers for straw. The company became an exclusive distributor of Massey Ferguson and a dealership and service center of Massey Ferguson equipment in Moldova. Total company capitalization is $2.8 million.

In 1998, WESTNIS purchased 25 percent of equity worth $4.8 million in the glass container company (GGC), a Moldovan manufacturer of green glass packaging serving the wine and champagne industries of Moldova and neighboring countries. The Fund also procured 52 percent of stock worth $3.75 million of Vitanta, a dominant producer of beer, flavored alcoholic beverages, and soft drinks in Moldova.

Along with equity financing, WESTNIS also provides technical assistance for its credits beneficiaries. Its funds provide computer equipment, software, and its consultants to assist recipients in finance and business management, marketing, and project implementation.

5. Other Sources of Financing

-- OPIC, TDA, EXIM and other agencies are described in the Investment Climate Statement submitted by post.

-- The Turkish Export-Import Bank became active in Moldova in 1998, when it approved a $15 million loan for the water supply project in the southern districts of Moldova. The credit was granted for 7 years with a three-year grace period.

-- Since becoming independent, Moldova has received a total of ECU 60 million ($58.7 million) in balance of payments loans from the European Union (EU). Technical assistance grants amounting to ECU 27 million have been provided between 1995 and 1998. In 1999, a further grant of ECU 22 million is planned for Moldova, which will be focused on three priority sectors: agriculture and food distribution, private sector development, and human resource development (including the social sector). In addition, small projects will continue to provide assistance in areas such as policy advice, management training, customs and statistics.

-- Since its independence, Moldova has signed a bilateral agreement for financial assistance with the following countries: Canada, Denmark, Germany, Italy, Japan, Kuwait, Norway, Sweden, China, Turkey, United Kingdom, and the United States.

Chapter IX: Business Travel

A. Business Customs

Business customs in Moldova do not differ much from western business customs. Moldovans are famous for their hospitality and usually offer food and beverages at business meetings. It is considered an offense if a guest refuses food or beverage the first time it is offered.

B. Travel Advisory and Visas

Moldova's capital, Chisinau, offers adequate hotels and restaurants, but tourist and business facilities in other parts of the country are not highly developed, and many of the goods and services taken for granted in other countries are not yet available.

Visas are required of all American citizens traveling to Moldova, with the exception of those traveling on diplomatic passports. As of June 1st, 1999, all visas must be obtained in advance of arrival from a Moldovan embassy or consulate. Only those Americans who can prove they reside in a country in which Moldova has no embassy or consulate will be permitted to obtain a tourist/business visa at the airport. No invitation is necessary. A one-entry visa, valid for a one-month stay, costs $45. Travelers on official passports can obtain a visa free of charge.

Travelers entering the Transnistria region of Moldova should be prepared for frequent checkpoints. Regular consular protective services are very difficult to provide in this region in the case of arrests or imprisonment of Americans.

Flying to Moldova from the United States is easy via Amsterdam (Holland), Frankfurt (Germany), Budapest (Hungary), and Vienna (Austria). These cities have direct flights to Chisinau, Moldova.

Additional information on travel to Moldova and the rest of the NIS is available on the state department's web page at http:\\www.travel.state.gov.

C. Holidays

There are 9 national holidays in Moldova. New Year's Day (January 1), Christmas (January 7 and 8), International Women's Day (March 8), two days of Easter determined by the Orthodox Church's calendar, Memorial Day (the first Monday a week after Easter), Victory Day (May 9), National Day (August 27) and Our Language Day (August 31) are celebrated in Moldova. Most businesses and all state institutions are closed on these days. The basic infrastructure institutions like airports and markets usually stay open. Private businesses and institutions normally open 24 hours a day maintain this regime.

D. Temporary Entry of Goods

There are few restrictions on bringing computer equipment, exhibit materials, or goods for personal use while traveling to Moldova. The quantity of goods should not exceed the number stipulated in the 1999 budget law, which is usually no more than 5 pieces of each product. If the number of goods does exceed the limit and there is no document confirming the marketing purpose of the goods, then a customs tariff and a customs tax will be applied.